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MANITOBA DEVELOPMENT CORPORATION

Honourable J.A. Ernst,
Minister Responsible for the Administration
of The Development Corporation Act,
Room 358, Legislative Building,
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Ernst:

In accordance with the provisions of Part I and Part II of the Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1989.

Respectfully submitted on
behalf of the Board of Directors.

M. O. Taillieu

Marcel Taillieu,
Chairman.

18th FLOOR – ONE LAKEVIEW SQUARE, 155 CARLTON ST., WINNIPEG, MANITOBA R3C 3H8 FAX NO. ONLY (204) 947-2318
TELEPHONE (204) 949-1844

REPORT OF THE GENERAL MANAGER

The financing activities of the Manitoba Development Corporation under Part I of The Development Corporation Act were suspended in 1977. The only exception was the provision of financing to Flyer Industries Limited. In the 1987 fiscal year, this requirement ceased when the company was sold. One of the conditions of the share purchase agreement requires M.D.C. to provide guarantees for bonding requirements in 1988 and 1989. Other obligations exist, particularly for warranties outstanding for the former company. The warranty periods are expiring as are the obligations. We believe that our books reflect an adequate provision for future warranty costs. In any event, these costs are recoverable from the Province.

Several loans that we made prior to 1977 continue to be collected in an orderly fashion.

Part II of The Development Corporation Act provides for M.D.C. to undertake certain activities as requested by the Province of Manitoba. These activities have taken on the form of trust, agency or proxy duties for other government departments. To be more precise, we monitor and administer loans under their direction. Although the volume of dollars handled, through Part II, is fairly large, our revenues are restricted to administrative fees. The loans earn interest but those amounts are paid to other departments so our expenses are equal to our revenues.

The well rounded expertise of the Board of Directors has proven very helpful particularly in sensitive warranty negotiations. I wish to extend my sincere gratitude for that help. I also want to express my thanks to our staff for their dedication during difficult times.

W.E. Chiswell, C.A.
General Manager.

DIRECTORS AND OFFICERS AT MARCH 31, 1989

BOARD OF DIRECTORS

Marcel Taillieu, Chairperson

Grace Gillespie, Vice-Chairperson

Lorette Courcelles

Arnold Morberg

Aaron Redekop

Eldon Ross

Lorne Sharfe

OFFICERS

W.E. Chiswell, General Manager

A.Y. Musgrove, Corporate Secretary

Manitoba

MANITOBA DEVELOPMENT CORPORATION

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of the Manitoba Development Corporation at March 31, 1989 and the statements of operations and deficit and changes in cash position and the schedules of loans receivable, equity investments, accumulated losses and net divestiture costs, and assistance granted or to be granted for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation at March 31, 1989 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in the methods of accounting for pension expense and obligations as described in note 3, on a basis consistent with that of the preceding year.

J. W. Singleton, CA,
Assistant Provincial Auditor.

September 11, 1989,
Winnipeg, Manitoba.

Balance Sheet
as at March 31, 1989
(with 1988 figures for comparison)

ASSETS	1989 Part I	1989 Part II	1989 Total	1988 Total
Cash	$ 83,466	$ -	$ 83,466	$ 102,669
Trust funds held	-	4,523	4,523	1,941
Accounts receivable	4,038	-	4,038	209,282
Due from the Province of Manitoba (note 4)	53,200	-	53,200	5,998,641
Due from Communities Economic Development Fund (note 2(c))	84,976	-	84,976	125,382
Loans receivable, Schedule 1	6,326,396	8,971,170	15,297,566	16,577,359
Equity investments, Schedule 2	-	6,320,239	6,320,239	5,510,239
Office furniture & equipment at cost less accumulated depreciation $63,722 (1988 -$54,484)	45,991	-	45,991	39,037
	$ 6,598,067	$15,295,932	$21,893,999	$28,564,550
LIABILITIES				
Due to Province of Manitoba	$ -	$ -	$ -	$ 122,889
Accounts payable and accruals	58,097	-	58,097	286,003
Interest payable - Province of Manitoba	232,145	90,116	322,261	639,407
Provision for divestiture costs (note 7)	2,554,355	-	2,554,355	8,385,186
Advances - Province of Manitoba	3,389,867	15,205,816	18,595,683	19,088,343
Deferred revenue	13,500	-	13,500	38,267
Accrued Pension Liability (note 2(b) and 3)	98,000		98,000	-
	6,345,964	15,295,932	21,641,896	28,560,095
SHAREHOLDER'S EQUITY				
Capital Stock: Authorized & Issued - 500,000 shares @ $100 each	50,000,000	-	50,000,000	50,000,000
Deficit, Statement 2	(49,747,897)	-	(49,747,897)	(49,995,545
	252,103	-	252,103	4,455
	$ 6,598,067	$15,295,932	$21,893,999	$28,564,550

APPROVED ON BEHALF OF THE BOARD:

Director

Director

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Statement of Operations and Deficit
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Revenue:		
Interest and fees:		
Loans and guarantees - Part I	$ 765,056	$ 803,450
- Part II	575,775	1,021,988
Term deposits	-	7,159
Administration fees earned	70,790	52,706
	1,411,621	1,885,303
Recoveries - Province of Manitoba (note 5)	179,905	151,504
	1,591,526	2,036,807
Expenses:		
Interest - Province of Manitoba - Part I	232,145	156,231
- Part II	575,775	1,021,988
Salaries and benefits	466,099	418,167
Administration	299,257	319,966
	1,573,276	1,916,352
Net operating revenue	18,250	120,455
Extraordinary Items:		
Net divestiture (costs) or recoveries, Schedule 3	229,398	(5,851,792)
Recovery from the Province of Manitoba	-	5,851,792
Excess of revenue over expenses	247,648	120,455
Deficit - beginning of year	(49,995,545)	(50,116,000)
Deficit - end of year	$(49,747,897)	$(49,995,545)

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Statement of Changes in Cash Position
for the year ended March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Cash provided by (used for)		
Operating activities		
Net Operating Revenue, Statement 2	$ 247,648	$ 120,455
Items not affecting cash flow:		
Depreciation	5,244	3,146
Allowance for doubtful accounts	50,000	100,000
Loan Activities:		
Part I		
Loan principal payments	477,395	428,132
Protective disbursements	(50,229)	(52,791)
	427,166	375,341
Part II		
Loan principal payments	767,600	10,894,308
Loans issued	(5,136,683)	(3,514,848)
	(4,369,083)	7,379,460
Net change in provision for divestiture costs (note 7)	(5,830,831)	(6,300,665)
Net change in other non-cash balances:		
Part I	5,951,560	1,333,467
Part II	(426,557)	2,337,909
	5,525,003	3,671,376
Purchase of office equipment	(12,893)	(15,046)
Sale of office equipment	698	-
	(3,957,048)	5,334,067
Financing activities		
Advances from the Province of Manitoba:		
Part I	(857,792)	4,247,659
Part II	4,795,637	(9,717,369)
	3,937,845	(5,469,710)
Decrease in cash	(19,203)	(135,643)
Cash at beginning of year, Statement 1	102,669	238,312
Cash at end of year, Statement 1	$ 83,466	$ 102,669

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Schedule of Loans Receivable
as at March 31, 1989
(with 1988 figures for comparison)

	1989	1988
Part I: (note 1)		
Loans and protective disbursements	$ 6,476,396	$ 6,865,679
Less: allowance for doubtful accounts	(150,000)	(100,000)
	$ 6,326,396	$ 6,765,679
Part II: (note 1)		
Loans receivable:		
Manitoba Industrial Opportunities Program	$18,117,116	$16,012,379
Other programs	3,025,810	3,836,661
	21,142,926	19,849,040
Less allowance for:		
Forgiveness	(10,937,756)	(9,703,360)
Doubtful accounts	(1,234,000)	(334,000)
	(12,171,756)	(10,037,360)
	$ 8,971,170	$ 9,811,680
Loans receivable less allowance for forgiveness and doubtful accounts, Statement 1	$15,297,566	$16,577,359

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Schedule of Equity Investments
as at March 31, 1989
(with 1988 figures for comparison)

Part II:	1989	1988
A. E. McKenzie Co. Ltd. at cost: 12,154,000 preferred shares	$12,154,000	$12,154,000
Small Business Growth Fund - Limited Partnership (at equity)	810,000	-
Sub-Total	12,964,000	$12,154,000
Allowance for losses - A. E. McKenzie Co. Ltd.	(6,643,761)	(6,643,761)
Equity investments, less allowance for losses, Statement 1	$ 6,320,239	$ 5,510,239

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Schedule of Accumulated Losses and Net Divestiture Costs
of Flyer Industries Limited (Note 7)

As at March 31, 1989

	Costs to March 31, 1988	Divestiture Costs for year ended March 31, 1989 (Statement 2)	Total Costs to Date
Investment Losses:			
Write off of shares	$34,432,106	$ -	$34,432,106
Write off of loan receivable, March 31, 1986	7,280,874	-	7,280,874
	41,712,980		41,712,980
Less: Proceeds from sale of shares	(1,000,000)	-	(1,000,000
Loss on investment	40,712,980	-	40,712,980
Acquisition Costs, July 15, 1986:			
Liabilities assumed	13,368,068	-	13,368,068
Less: Assets acquired	(12,905,144)	-	(12,905,144
Loss on acquisition	462,924	-	462,924
Other Costs:			
Write down of assets to realizable value	4,676,175	(8,249)	4,667,926
Bank guarantees	19,959,399	-	19,959,399
Outstanding cheques	3,450,030	-	3,450,030
Warranty obligations	21,441,834	(378,632)	21,063,202
Fixed asset acquisitions	4,796,477	82,304	4,878,781
Write off of loans & interest	3,815,348	-	3,815,348
Purchase of minority shares	332,522	-	332,522
Severance payments & consultations	1,244,039	2,855	1,246,894
Insurance	500,999	-	500,999
Occupancy costs	286,137	6,816	292,953
Professional fees	528,298	91,711	620,009
Equipment removal	219,928	-	219,928
Inventory management	304,646	9,268	313,914
Sundry	331,951	1,139	333,090
	61,887,783	(192,788)	61,694,995
Less Other Proceeds:			
Sales of fixed assets	(3,323,000)	-	(3,323,000
Proceeds from work-in-process	(3,016,890)	-	(3,016,890
Lease proceeds	(1,368,733)	-	(1,368,733
Sundry	(201,054)	(36,610)	(237,664
	(7,909,677)	(36,610)	(7,946,287
Net accumulated losses and divestiture costs of Flyer Industries Limited	$95,154,010	$ (229,398)	$94,924,61

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Report of Assistance Granted or to be Granted
for the year ended March 31, 1989

UNDER PART II OF THE DEVELOPMENT CORPORATION ACT:

CANADA/MANITOBA TOURISM AGREEMENT PROGRAM

Eagle Nest Lodge		
Loan - Interest - 6%	- 8 year term	$ 75,000
Conditional Forgivable Loan Interest Free	- Demand	$ 75,000
Sea North Tours Ltd.		
Loan - Interest - 6%	- 13 year term	$ 82,500
Conditional Forgivable Loan Interest Free	- Demand	$ 82,500

MANITOBA INDUSTRIAL OPPORTUNITIES PROGRAM

Linnet International Graphics Ltd.		
Conditional Forgivable Loan - Interest Free	- Demand	$ 200,000
Palliser Furniture Ltd.		
Loan - Interest - 11%	- 5 year term	$1,500,000

MANUFACTURING ADAPTATION PROGRAM

A.D. Type Graphics Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 50,000
Caligiuri Woodworking Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 23,000
E.P.T. Manufacturing Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 50,000

MANUFACTURING ADAPTION PROGRAM (cont'd)

Franklin Enterprises Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 17,352
Golden Gong (Limited Partnership)		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 17,000
Inespo Corporation		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 34,250
Myrah Enterprises Inc.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 22,500
Pak Mark Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 40,000
The Tops Manufacturers Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 13,150
VMS Visual Marketing Systems Ltd.		
Loan - Interest - Crown Corporation borrowing rate less 2%	- 5 year term	$ 50,000

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1989

1. Nature of Operations and Economic Dependence:

The Manitoba Development Corporation (the Corporation) provides loans and loan guarantees under Part I and Part II of The Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except since then, further guarantee and loan commitments have been made on the direction of the Province of Manitoba. The Corporation is dependent on the Province of Manitoba for its continued operations.

2. Significant accounting policies:

(a) Losses under Part I are charged against operations of the Corporation. Divestiture costs related to Flyer Industries Ltd. are recoverable from the Province. Losses under Part II are the responsibility of the Province and are charged directly against advances received from the Province.

(b) The employees of the Corporation are not members of the Civil Service of the Province but they contribute to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. The current pension expense is determined on the basis of an actuarial valuation. In addition, the past service obligations are being charged to operations over a ten year period. Payments to pensioners are charged against the liability account.

(c) The Corporation is jointly administered with the Communities Economic Development Fund (CEDF). At the year end, common administrative expenses are reviewed and allocated between CEDF and the Corporation on a proportionate basis as determined by officials of CEDF and the Corporation.

(d) Office furniture and equipment is depreciated at 10% on a straight line basis.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1989

3. Change in accounting policy:

During the year, the Corporation changed its method of accounting for pension expenses and obligations. In fiscal years prior to 1989, the Corporation charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Corporation has recorded a provision to fund current service obligations and to fund past service obligations over a ten-year period. On the basis of an actuarial report, the unfunded liability amounted to $412,320 at December 31, 1988 ($456,929 at December 31, 1987). This change in accounting policy for pension expense and obligations has been applied prospectively and has resulted in an additional $98,000 being charged to operations.

4. Due from Province of Manitoba:

The amount due from the Province represents the recoverable balance outstanding for costs or fees incurred by the Corporation on behalf of the following operations:

	1989	1988
The Pas Forestry Complex, (note 6(c))	$ 10,335	$ 84,409
Destination Manitoba	39,795	2,907
Manitoba Interest Rate Relief Program	970	11,612
Flyer Industries Ltd. Divestiture, (note 7)	-	5,851,792
Manitoba Industrial Opportunities Program	-	47,921
Department of Cooperative Development	1,057	-
Manufacturing Adaptation Program	1,043	-
	$ 53,200	$5,998,641

5. Recoveries from the Province of Manitoba:

The Corporation is entitled to recover administrative costs for all Part II programs. During the year, the Corporation recovered costs for administering the following programs:

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1989

5.(cont.)

	1989	1988
Tourism Agreement	$ 10,400	$ 1,000
Destination Manitoba	49,211	49,975
Manitoba Interest Rate Relief Program	13,392	40,179
Manitoba Industrial Opportunities Program	96,223	50,000
Manufacturing Adaptation Program	10,679	10,350
	$179,905	$ 151,504

6. Contingent Liabilities and Commitments:

(a) Bank Guarantees, Part II:

The Corporation has provided guarantees under the Manitoba Industrial Opportunities Program (formerly Jobs Fund) as follows:

	1989	1988
Gravure Graphics Ltd.	$ 850,000	$1,175,000

(b) Commitments, undisbursed balances of approved loans:

	1989	1988
Part II		
Tantalum Mining Corporation of Canada Limited	-	350,500
Manitoba Industrial Opportunities Program	4,285,806	5,639,050
Canada Manitoba Tourism Agreement	232,500	240,000
Manufacturing Adaptation Program	131,136	664,637
	$4,649,442	$6,894,187

(c) The Pas Forestry Complex:

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Province and the Corporation, the Corporation has a continuing responsibility to press and defend all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Province.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1989

6. (c) continued:
The remaining funds in the Receiver's accounts will be transferred to the Province when the Receiver settles all outstanding legal issues.

(d) New Flyer Industries Limited:

Under the terms of the Divestiture Agreement described in Note 7, the Manitoba Development Corporation is contingently liable for and the Province of Manitoba is ultimately responsible for a bank guarantee, performance bonds, litigation and other contingencies.

7. Flyer Divestiture:

On July 15, 1986, the Manitoba Development Corporation entered into an agreement with BV Carrosseriefabriek den Oudsten en Zonen by which MDC divested itself of its interest in Flyer Industries Limited. Under the terms of this agreement, the shares were sold to BV Carrosseriefabriek den Oudsten en Zonen for $1,000,000 and MDC contracted to receive certain revenues and pay certain costs as described in Schedule 3. The net divestiture cost and accumulated losses is estimated to be $109 million allocated as follows:

MDC Schedule 3	$ 94,924,612
Province of Manitoba	14,065,000
Total	$108,989,612

The net divestiture costs and accumulated losses of $94,924,612, related to the Corporation, are comprised of payments, net of receipts, to March 31, 1989 of $92,370,257 and a provision of $2,554,355 for future anticipated costs and recoveries. A summary of changes in the provision account is as follows:

Balance, March 31, 1988		$8,385,186
Less:		
Reduction for payments (net of receipts)	$ 5,601,433	
Divestiture cost recoveries, Schedule 3	229,398	5,830,831
Balance, March 31, 1989		$2,554,355

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1989

8. Comparative Figures:

Comparative figures have been restated where necessary to conform with the 1989 financial statement presentation.